

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 /089 W

----- 028858

R 220833Z AUG 75

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 2719

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY TH HAGUE

AMCONSUL HONG KONG

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY SEOUL

AMEMBASSY STOCKHOLM

USEC MISSION BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L TOKYO 11781

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652 N/A

TAGS/ EFIN, JA

SUBJECT: TOKYO FOREX MARKET DEVELOPMENTS

SUMMARY: DOL DEMAND HAS REMAINED STRONG ON TOKYO FOREX
MARKET THIS WEEK OBLIGING BOJ TO PROVIDE ABOUT \$250 MIL
DURING WEEK, IN ORDER TO PREVENT FURTHER YEN DECLINES. HOW-
EVER, CURRENT WEAKNESS OF THE YEN IS VIEWED AS TEMPORARY
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BY BOTH PRIVATE BUSINESSMEN AND GOJ OFFICIALS. GON DECISION

TO SUPPORT YEN AT 298/DOL RATE APPEARS TO REFLECT DESIRE TO AVOID UNDUE FLUCTUATION OF YEN DOL RATE WHEN YEN IS EXPECTED TO FIRM SOMEWHAT DURING AUTUMN. END SUMMARY.

1. DURING WEEK OF AUG 18-22, BOJ SOLD ABOUT \$250 MIL (I.E. ALMOST ONE-HALF OF TOTAL SPOT VOL) MOST OF IT ON MON AND TUES, IN ORDER TO PREVENT YEN FROM WEAKENING BELOW YEN 298/DOL RATE. NEWS REPORTS AND MARKET SOURCES INDICATE THAT BOJ INTERVENTION DURING AUG HAS NOW REACHED ALMOST \$500 MIL. NEVERTHELESS, OPINION OF PRIVATE MARKET SOURCES AND GOJ OFFICIALS IS THAT YEN IS BASICALLY SOUND, AND THE NORMAL " RANGE FOR YEN IS 290-300/DOL.

2. CURRENT WEAKNESS OF YEN ATTRIBUTED BY FINANCE MANAGERS AT MAJOR TRADING COMPANIES TO DECLINE IN PURCHASES OF JAPANESE SECURITIES BY FOREIGNERS DURING PERIOD WHEN EXPORTS WERE CONTINUING TO STAGNATE. MANAGER NOTED THAT AUG DOL INFLOW FOR SECURITIES PURCHASES HAD DROPPED SHARPLY FROM \$250 MIL LEVEL OF JULY. SLOWDOWN IN FLOW WAS INTERPRETED AS RESULTING FROM INCREASE IN INTEREST RATES IN U.S. AND EURODOL FROM INCREASE IN INTEREST RATES IN U.S. AND EURODOL MARKETS WHILE RATES IN JAPAN WERE DECLINING. TRADING COMPANY MANAGER SAID EXPORTS ARE LIKELY TO REMAIN WEAK UNTIL OCT-NOV PERIOD, ALTHOUGH CONTINUING DECLINE OF IMPORTS MIGHT CAUSE SOME FIRMING OF YEN AFTER MID-SPET.

3. BOJ OFFICIAL SAID MARKET IS EXPERIENCING SOME ARBITRAGE BY JAPANESE LOCAL (REGIONAL) BANKS, WHICH ARE PURCHASING DOLS SPOT AND SELLING FORWARD. PREMIUM FOR TWO MONTHS FORWARD DOL HAS NOW REACH 0.1 PCT. CITY BANKS REPORTEDLY HAVE NOT ENGAGED IN THIS ARBITRAGE.

4. BOJ OFFICIAL DENIED RECENT NIKKEI NEWS STORY DISCUSSING TENDENCY TOWARD SHIFT IN TRADE FINANCING FROM DOLS TO YEN. WHILE CURRENT UPTURN OF INTEREST RATES ABROAD WOULD ENCOURAGE SUCH A DEVELOPMENT, OFFICIAL SAID JAPANESE TRADING CORPORATIONS ARE UNABLE TO BORROW YEN NEEDED TO TAKE ADVANTAGE OF THIS SITUATION. SINCE JAPANESE BANKS ARE BEGINNING TO ADJUST TO IMPOSED LENDING GUIDELINES WHICH LIMIT LOANS TO ANY SINGLE CORPORATION TO LESS THAN 20 PERCENT OF BANKS' OWNED CAPITAL, BANKS ARE RELUCTANT TO MAKE FURTHER LOANS NOW TO TRADING CORPORATIONS (SEE TOKYO A-756 DEC30 1974). STRONG FUND DEMAND BY TRADING COMPANIES REFLECTS THEIR NEED TO FINANCE INVENTORIES WHICH ARE AGAIN REACHING UNCOMFORTABLY LARGE LEVEL. OFFICIAL SAID THE RECENT INCREASE IN THE AMOUNT OF TOTAL BANK LENDING PERMITTED BY BOJ

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REFLECTS CREDIT DEMAND (BOTH TRADING COMPANIES AND DOMESTIC FIRMS) STRONGER THAN ANTICIPATED.

5. FOLLOWING ARE DATA FOR OVERNIGHT SPOT (CENTRAL) AND FORWARD DOLLAR EXCHANGE RATES AND TRADING VOLUMES FOR AUG 18-22:

	CENTRAL	FORWARD DOLLARS				SPOT
	SPOT RATE	(PREMIA IN PCT P.A.)				VOL
	(YEN/DOL)	2-NO	3.NO	6-MO		(MIL DOL)
AUG 18	298.00	0.52	0.20	0.27	0.27	160
19	298.00	0.91	0.47	0.40		158
20	298.00	1.01	0.67	0.44		103
21	297.85	1.11	0.74	0.52		69
22	297.95	0.91	0.60	0.54		84

WEEKLY FWD WAS \$635 MIL; SWAP VOL WAS \$353 MIL.
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Draft Date: 22 AUG 1975
Decaption Date: 01 JAN 1960
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Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: RowellEO
Disposition Case Number: n/a
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Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Margaret P. Grafeld
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EO Systematic Review
06 JUL 2006

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Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006